Mpofana Municipality
Annual Financial Statements
for the year ended 30 June 2011

## Index

The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:


| Index | Page |
|---|---|
| Accounting Officer's Responsibilities and Approval | 2 - 3 |
| Report of the Auditor General | 4 - 5 |
| Aproval of Annual Financial Statements | 6 |
| Statement of Financial Position | 7 |
| Statement of Financial Performance | 8 |
| Statement of Changes in Net Assets | 9 |
| Cash Flow Statement | 10 |
| Accounting Policies | 11 - 23 |
| Notes to the Annual Financial Statements | 24 - 43 |

The following supplementary information does not form part of the annual financial statements and is unaudited:

| | |
|---|---|
| Detailed Income statement | 45 |


**Abbreviations**

| | |
|---|---|
| COID | Compensation for Occupational Injuries and Diseases |
| CRR | Capital Replacement Reserve |
| DBSA | Development Bank of South Africa |
| SA GAAP | South African Statements of Generally Accepted Accounting Practice |
| GRAP | Generally Recognised Accounting Practice |
| GAMAP | Generally Accepted Municipal Accounting Practice |
| HDF | Housing Development Fund |
| IAS | International Accounting Standards |
| IMFO | Institute of Municipal Finance Officers |
| IPSAS | International Public Sector Accounting Standards |
| ME's | Municipal Entities |
| MEC | Member of the Executive Council |
| MFMA | Municipal Finance Management Act |
| MIG | Municipal Infrastructure Grant (Previously CMIP) |

# Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP).

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2012 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the income from services, rates and grants for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the council has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 4.

We draw attention to the fact that  the municipality had a  deficits of R 3,426,888 as at 30 June 2011 and R 43,543,290 as at 30 June 2010.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

There is a financial turn around strategy which has been approved by council. This will be in effect in the next eight months. The Financial turn around strategy aims to prioritize the following:

1. Revenue maximization
2. Revenue protection
3. Cost recovery on tariffs
4. Disposal of underutilized assets
5. Prioritization of economic development
6. Reduction in non critical expenditure and an increase on key service delivery expenditure.

The annual financial statements set out on pages 6 to 45, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2011 and were signed on its behalf by:

## Accounting Officer's Responsibilities and Approval

**Accounting Officer**

# Report of the Auditor General

**To the Provincial Legislature of Mpofana Municipality**

***Report on the financial statements***

I have audited the accompanying annual financial statements of the Mpofana Municipality which comprise the statement of financial position as at 30 June 2011, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the [directors' / accounting officer's / accounting authority's] report, as set out on pages 6 to 43.

**Responsibility of the Accounting Officer for the annual financial statements**

The accounting officer is responsible for the preparation and fair presentation of these annual financial statements in accordance with [the applicable reporting framework/basis of accounting] [and in the manner required by the [Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA)] [Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA)] [Auditor-General audit circular 1 of 2005] and the [Companies Act, 1973 (Act No. 61 of 1973)] [any applicable enabling legislation]. This responsibility includes:

- designing, implementing and maintaining internal control relevant to the preparation and fair presentation of annual financial statements that are free from material misstatement, whether due to fraud or error;
- selecting and applying appropriate accounting policies; and
- making accounting estimates that are reasonable in the circumstances.

**Responsibility of the Auditor-General**

As required by [section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA)] [and section XX of any applicable legislation], my responsibility is to express an opinion on these annual financial statements based on my audit.

I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the annual financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the annual financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the:

- appropriateness of accounting policies used;
- reasonableness of accounting estimates made by management; and
- overall presentation of the financial statements.

Paragraph 11 et seq. of the Statement of Generally Recognised Accounting Practice, GRAP 1 Presentation of Financial Statements requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is still in the process of being developed, I have determined that my audit of any disclosures made by [name of entity] in this respect will be limited to reporting on non-compliance with this disclosure requirement.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

**Basis of accounting**

The entity's policy is to prepare annual financial statements on [the basis of accounting determined by the National Treasury] [entity-specific basis of accounting] as set out in [accounting policy note ] [note  to the financial statements].

**Opinion**

# Report of the Auditor General

In my opinion the annual financial statements present fairly, in all material respects, the financial position of Mpofana Municipality as at 30 June 2011 and its financial performance and cash flows for the year then ended, in accordance with [the applicable reporting framework/basis of accounting] [and in the manner required by the PFMA/MFMA (if the entity falls within the scope of the PFMA/MFMA) and Companies Act, 1973 (if the entity falls within the scope of the Companies Act) or section xx of the entity’s enabling legislation (if the entity does not fall within the scope of the PFMA/MFMA)].

**Auditor's/Accountant's name**

# Aproval of Annual Financial Statements

I am responsible for the preparation of these annual financial statements, which are set out on pages 6 to 39, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 25 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

Municipal Manager:
August 31, 2011

# Statement of Financial Position

| Figures in Rand | Note(s) | 2011 | 2010 |
|---|---|---|---|
| **Assets** | | | |
| Current Assets | | | |
| Inventories | 9 | 105,511 | 37,326 |
| VAT receivable | 17 | 608,791 | 145,751 |
| Other receivables | 10 | 302,941 | 282,240 |
| Prepayments | 6 | 834,301 | 762,185 |
| Consumer debtors | 11 | 30,295,777 | 29,304,157 |
| Financial assets - Investments | 7 | 17,595,510 | 22,069,108 |
| Loans and receivables | 8 | 321,535 | 137,663 |
| Cash and cash equivalents | 12 | 12,663 | 258,138 |
| | | **50,077,029** | **52,996,568** |
| Non-Current Assets | | | |
| Investment property | 2 | 5,335,395 | 5,335,395 |
| Property, plant and equipment | 3 | 39,242,523 | 35,654,793 |
| Intangible assets | 4 | 108,466 | 93,911 |
| Loans and receivables | 8 | 8,884 | 192,756 |
| | | **44,695,268** | **41,276,855** |
| **Total Assets** | | **94,772,297** | **94,273,423** |
| **Liabilities** | | | |
| Current Liabilities | | | |
| Finance lease obligation | 13 | 1,081,993 | 360,858 |
| Trade and other payables from exchange transactions | 18 | 8,968,055 | 8,032,712 |
| Consumer deposits | 19 | 357,528 | 373,783 |
| Unspent conditional grants and receipts | 14 | 17,462,464 | 17,791,289 |
| Provisions | 15 | 9,264,565 | 8,971,738 |
| Short term portion of long term liabilities | 16 | 125,158 | 156,173 |
| Bank overdraft | 12 | 1,292,934 | 399,395 |
| | | **38,552,697** | **36,085,948** |
| Non-Current Liabilities | | | |
| Finance lease obligation | 13 | 4,127,886 | 1,134,413 |
| Annuity loan | 16 | 206,004 | 331,162 |
| | | **4,333,890** | **1,465,575** |
| **Total Liabilities** | | **42,886,587** | **37,551,523** |
| **Net Assets** | | **51,885,710** | **56,721,900** |
| **Net Assets** | | | |
| Accumulated surplus | | 51,885,710 | 56,721,900 |

# Statement of Financial Performance

| Figures in Rand | Note(s) | 2011 | 2010 |
|---|---|---|---|
| Revenue | 20 | 81,421,433 | 61,911,434 |
| Other income | 24 | 294,821 | 931,194 |
| Operating expenses | | (89,372,036) | (115,073,857) |
| **Operating deficit** | | **(7,655,782)** | **(52,231,229)** |
| Investment revenue | 28 | 5,417,918 | 8,985,757 |
| Loss on sale/disposal of assets | | (39,422) | (100,230) |
| Finance costs | 31 | (1,149,602) | (197,588) |
| **Deficit for the year** | | **(3,426,888)** | **(43,543,290)** |

## Statement of Changes in Net Assets

| Figures in Rand | Accumulated surplus | Total net assets |
|---|---|---|
| **Balance at 01 July 2009** | **73,259,931** | **73,259,931** |
| Changes in net assets | | |
| Correction of previous misstatements | 25,339,515 | 25,339,515 |
| Net income (losses) recognised directly in net assets | 25,339,515 | 25,339,515 |
| Deficit for the year | (44,366,442) | (44,366,442) |
| Total recognised income and expenses for the year | (19,026,927) | (19,026,927) |
| Total changes | (19,026,927) | (19,026,927) |
| Opening balance as previously reported | 54,233,004 | 54,233,004 |
| Adjustments | | |
| Correction of error (refer note 40) | 2,488,896 | 2,488,896 |
| **Balance at 01 July 2010 as restated** | **56,721,900** | **56,721,900** |
| Changes in net assets | | |
| Reversal of adjustments | (1,409,302) | (1,409,302) |
| Net income (losses) recognised directly in net assets | (1,409,302) | (1,409,302) |
| Deficit for the year | (3,426,888) | (3,426,888) |
| Total recognised income and expenses for the year | (4,836,190) | (4,836,190) |
| Total changes | (4,836,190) | (4,836,190) |
| **Balance at 30 June 2011** | **51,885,710** | **51,885,710** |

## Cash Flow Statement

| Figures in Rand | Note(s) | 2011 | 2010 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash receipts from customers | | 79,113,326 | 69,218,794 |
| Cash paid to suppliers and employees | | (84,542,957) | (53,549,667) |
| Cash (used in) generated from operations | 36 | (5,429,631) | 15,669,127 |
| Interest income | | 5,417,918 | 8,995,463 |
| Finance costs | | (446,494) | (197,588) |
| **Net cash from operating activities** | | **(458,207)** | **24,467,002** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | 3 | (8,383,792) | (22,256,556) |
| Sale of property, plant and equipment | 3 | 68,432 | 98,077 |
| Purchase of intangible assets | 4 | (52,399) | (104,060) |
| Sale of financial assets - investments | | 4,473,598 | 4,367,186 |
| Decrease in loans and receivables | | - | 118,065 |
| Decrease/(Increase) in government grants | | (328,825) | (3,508,057) |
| **Net cash from investing activities** | | **(4,222,986)** | **(21,285,345)** |
| **Cash flows from financing activities** | | | |
| Decrease in annuity loan | | (156,173) | (134,149) |
| (Decrease)/Increase in consumer deposits | | (16,255) | 148,218 |
| Increase in finance lease obligation | | 3,714,607 | 1,025,551 |
| **Net cash from financing activities** | | **3,542,179** | **1,039,620** |
| **Net increase (decrease) in cash and cash equivalents** | | **(1,139,014)** | **4,221,277** |
| Cash at the beginning of the year | | (141,257) | (4,362,534) |
| **Net cash and cash equivalents at the end of the period** | 12 | **(1,280,271)** | **(141,257)** |

# Accounting Policies

## 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) - including any interpretations, guidelines and directives issued by the Accounting Standards Board and the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

Mpofana Municipality is situated in KwaZulu Natal in South Africa.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

These accounting policies are consistent with the previous period, unless otherwise stated.

In adopting GRAP in the year ended 30 June 2010, the municipality took advantage of certain transitional provisions of Directive 4 which are available to low capacity municipalities. The application of these transitional provisions is detailed in each policy to which the Directive applies.

### 1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

**Trade receivables and loans and receivables**

The municipality assesses its trade receivables and loans and receivables for impairment at the end of each reporting date. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

**Fair value estimation**

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

**Provisions**

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 15 - Provisions.

**Effective interest rate**

The municipality used the prime interest rate to discount future cash flows.

**Allowance for doubtful debts**

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

## Accounting Policies

### 1.1 Significant judgements and sources of estimation uncertainty (continued)

**Directive 4**

As allowed by the transitional provisions included in Directive 4, the following asset classes have not been measured in accordance with the relevant GRAP standards for the year ended June 30, 2011:

| | |
|---|---|
| Inventories | (GRAP 12) |
| Property, plant and equipment | (GRAP 17) |
| Intangible assets | (GRAP 102) |

Management has estimated provisional amounts for each of these asset classes which are included in the statement of financial position. These amounts are subject to change oonce the measurement process has been completed, which is expected to occur by June 30, 2012.

**Standards, amendments to standards and interpretations issued but not yet effective**

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality:

GRAP 18 Segment reporting
GRAP 20 Related Party disclosures
GRAP 25 Employee benefits
GRAP 104 Financial instruments
GRAP 105 Transfer of functions between entities under common control
GRAP 106 Transfer of functions between entities not under common control
GRAP 107 Mergers

The municipality has not applied the above accounting statements and interpretations that have been issued but are not yet effective. These will be applied by the municipality when they become effective.

### 1.2 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired at no cost or for a nominal cost, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

**Cost model**

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

| Item | Useful life |
|---|---|
| Property - land | indefinite |

## Accounting Policies

### 1.2 Investment property (continued)

**Transitional provision**

According to the transitional provision per Directive 4, the municipality is not required to measure investment property for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Investment property. Investment property has accordingly been recognised at provisional amounts, as disclosed in 2. The transitional provision expires on 30 June 2012.

### 1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

Cost includes costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

Subsequent to initial recognition, land and buildings are carried at a revalued amount, being its fair value at the date of revaluation less any subsequent accumulated and impairment losses.

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets.

| Item | Average useful life |
|---|---|
| Buildings | 5 - 25 years |
| Infrastructure | |
| • Electricity | 3 - 30 years |
| • Roads | 3 - 40 years |
| • Solid Waste disposal | 10 years |
| • Cemetries | 10 - 25 years |
| Other property, plant and equipment | |
| • Machinery and equipment | 3- 10 years |
| • Furniture and equipment | 3 - 5 years |
| • Computer equipment | 3 - 5 years |
| • Transport | 4 - 5 years |
| Finance lease assets | |
| • Office equipment | 5 years |
| • Transport | 3 - 5 years |
| Landfill site | 5 years |

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each financial period end.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is

### 1.3 Property, plant and equipment (continued)

depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

**Transitional provision**

The municipality changed its accounting policy for property, plant and equipment when it adopted GRAP in 2010. The change in accounting policy was made in accordance with its transitional provision as per Directive 4 (available to low capacity municipalities) of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure property, plant and equipment for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Property, plant and equipment. Property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in the relevant note. The transitional provision expires on 30 June 2012.

### 1.4 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as ‘decommissioning, restoration and similar liabilities’. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount, and any impairment loss is recognised in surplus or deficit.

### 1.5 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

### 1.5 Intangible assets (continued)

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Where an intangible asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at every period-end.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

| **Item** | **Useful life** |
| --- | --- |
| Computer software | 2 years |

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

### 1.5 Intangible assets (continued)

**Transitional provision**

The municipality changed its accounting policy for intangible assets when it adopted GRAP in 2010. The change in accounting policy was made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure intangible assets for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Intangible assets. Intangible Assets has accordingly been recognised at provisional amounts, as disclosed in the relevant note. The transitional provision expires on 30 June 2012.

### 1.6 Financial instruments

**Classification**

The municipality classifies financial assets and financial liabilities into the following categories:
- Loans and receivables
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition.

**Initial recognition and measurement**

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments. Financial instruments are initially recognised at fair value.

Transaction costs are included in the initial measurement of the instrument.

**Subsequent measurement**

Loans and receivables and consumer debtors are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

**Loans to employees**

These financial assets are classified as loans and receivables.

**Trade and other receivables**

Trade and other receivables are classified as loans and receivables.

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. An estimate is made for doubtful receivables based on a review of all outstanding amounts at reporting date. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited to surplus or deficit.

**Trade and other payables**

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

# Accounting Policies

### 1.6 Financial instruments (continued)

**Cash and cash equivalents**

The municipality classifies cash and cash equivalents as loans and receivables.Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash and cash equivalents are initially recorded at fair value and subsequently recorded at amortised cost as a loan receivable.

**Investments**

The municipality has investments that comprise of call accounts, money market investment accounts. These are treated as loans and receivables and are initially recorded at fair value and subsequently recorded at amortised cost.

**Bank overdraft and borrowings**

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

**Gains and losses**

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:

- For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

**Derecognition**

**Financial assets**

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a ‘pass-through’ arrangement; or
- the municipality has transferred its rights to receive cash flows from the asset and either
  - has transferred substantially all the risks and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the municipality has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay.

**Financial liabilities**

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

**Impairment of financial assets**

The municipality assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit. The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are

### 1.6 Financial instruments (continued)

individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

### 1.7 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

**Finance leases - lessee**

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangibles.

**Operating leases - lessor**

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in the statement of financial performance.

**Operating leases - lessee**

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

Any contingent rents are expensed in the period in which they are incurred.

### 1.8 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value on the first-in-first-out basis.

The amount of any write-down of inventories arising from a change in net realisable value is recognised in the statement of Financial Performance.

The cost of inventories comprises of all costs of purchase.

### 1.8 Inventories (continued)

**Transitional provision**

The municipality changed its accounting policy for inventories when it adopted GRAP in 2010. The change in accounting policy was made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure inventories for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Inventories. Inventories has accordingly been recognised at provisional amounts, as disclosed in the relevant note. The transitional provision expires on 30 June 2012.

### 1.9 Impairment of non-cash-generating assets

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municpality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests intangible assets with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed during the annual period and at the same time every period.

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.

The recoverable service amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease.

An impairment loss is recognised for cash-generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit on a pro-rata basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

### 1.10 Employee benefits

**Short-term employee benefits**

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

## Accounting Policies

### 1.10 Employee benefits (continued)

**Retirement benefits**

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the municipality's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

**Other post retirement obligations**

The municipality provides post-retirement health care benefits upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

### 1.11 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the financial period end.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

If the municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in the relevant notes to the financial statements.

### 1.12 Revenue from exchange transactions

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

**Measurement**

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts, volume rebates and value-added taxes (VAT).

**Sale of goods**

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

# Accounting Policies

### 1.12 Revenue from exchange transactions (continued)

**Rendering of services**

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at statement of financial position date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Contract revenue comprises:
- the initial amount of revenue agreed in the contract; and
- variations in contract work, claims and incentive payments:
  - to the extent that it is probale that they will result in revenue; and
  - they are capable of being reliably measured.

**Interest, royalties and dividends**

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:
- the amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

### 1.13 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

**Measurement**

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

**Rates, including collection charges and penalties interest**

Revenue from rates, including collection charges and penalty interest, is recognised when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

### 1.13 Revenue from non-exchange transactions (continued)

**Fines**

Revenue from the issuing of fines is recognised when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

**Government grants**

Government grants are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

**Other grants and donations**

Other grants and donations are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

Donations are measured at the fair value of the consideration received or receivable when the amount of the revenue can be measured reliably.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

### 1.14 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of that asset unless it is inappropriate to do so. The municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete. It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established. Borrowing costs incurred other than on qualifying assets are recognised as an expense in surplus or deficit when incurred.

### 1.15 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

### 1.16 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

# Accounting Policies

### 1.17 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.18 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 1.19 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

### 1.20 Presentation of currency

These annual financial statements are presented in South African Rand.

### 1.21 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

### 1.22 Housing subsidies

The municipality provides post-retirement housing subsidies for qualifying staff members. The payment of these subsidies is reflected as expenditure in the statement of financial performance.

### 1.23 Gratuities

The municipality provides gratuities for qualifying staff members in terms of the relevant conditions of employment. The expenditure is recognised in the statement of financial performance when the gratuity is paid.

### 1.24 Going concern assumption

The financial statements have been prepared on the assumption that the municipality will continue to operate as a going concern for at least the next 12 months.

### 2. Investment property

| | 2011 | | | 2010 | | |
| --- | --- | --- | --- | --- | --- | --- |
| | **Cost / Valuation** | **Accumulated depreciation** | **Carrying value** | **Cost / Valuation** | **Accumulated depreciation** | **Carrying value** |
| Investment property | 5,335,395 | - | 5,335,395 | 5,335,395 | - | 5,335,395 |

**Reconciliation of investment property - 2011**

| | **Opening balance** | **Total** |
| --- | --- | --- |
| Investment property | 5,335,395 | 5,335,395 |

**Reconciliation of investment property - 2010**

| | **Opening balance** | **Other changes, movements** | **Total** |
| --- | --- | --- | --- |
| Investment property | 290,295 | 5,045,100 | 5,335,395 |

| | 2011 | 2010 |
| --- | --- | --- |
| Fair value of investment properties | 17,286,400 | 17,286,400 |

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

### 3. Property, plant and equipment

| | 2011 | | | 2010 | | |
| --- | --- | --- | --- | --- | --- | --- |
| | **Cost / Valuation** | **Accumulated depreciation** | **Carrying value** | **Cost / Valuation** | **Accumulated depreciation** | **Carrying value** |
| Land | 589,286 | - | 589,286 | 589,286 | - | 589,286 |
| Buildings | 6,159,425 | (4,112,683) | 2,046,742 | 6,159,425 | (3,768,276) | 2,391,149 |
| Infrastructure | 62,316,446 | (39,763,320) | 22,553,126 | 61,497,444 | (37,970,962) | 23,526,482 |
| Other property, plant and equipment | 5,913,372 | (3,560,487) | 2,352,885 | 5,033,974 | (2,980,534) | 2,053,440 |
| Capital work in progress | 2,514,377 | - | 2,514,377 | 54,000 | - | 54,000 |
| Finance lease assets | 5,991,744 | (1,024,287) | 4,967,457 | 2,137,181 | (721,611) | 1,415,570 |
| Landfill site | 7,031,082 | (2,812,432) | 4,218,650 | 7,031,082 | (1,406,216) | 5,624,866 |
| **Total** | **90,515,732** | **(51,273,209)** | **39,242,523** | **82,502,392** | **(46,847,599)** | **35,654,793** |

**Reconciliation of property, plant and equipment - 2011**

| | **Opening balance** | **Additions** | **Disposals** | **Other changes, movements** | **Depreciation** | **Impairment loss** | **Total** |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Land | 589,286 | - | - | - | - | - | 589,286 |
| Buildings | 2,391,149 | - | - | - | (343,330) | (1,077) | 2,046,742 |
| Infrastructure | 23,526,482 | 819,002 | - | - | (1,242,797) | (549,561) | 22,553,126 |
| Other property, plant and equipment | 2,053,440 | 787,802 | - | 91,596 | (579,779) | (174) | 2,352,885 |
| Capital work in progress | 54,000 | 2,514,377 | - | (54,000) | - | - | 2,514,377 |
| Finance lease assets | 1,415,570 | 4,262,611 | (107,854) | - | (602,870) | - | 4,967,457 |
| Landfill site | 5,624,866 | - | - | - | (1,406,216) | - | 4,218,650 |
| | **35,654,793** | **8,383,792** | **(107,854)** | **37,596** | **(4,174,992)** | **(550,812)** | **39,242,523** |

### 3. Property, plant and equipment (continued)

**Reconciliation of property, plant and equipment - 2010**

| | Opening balance | Additions | Disposals | Transfers | Other changes, movements | Depreciation | Impairment loss | Tota |
|---|---|---|---|---|---|---|---|---|
| Land | 879,580 | - | - | (290,294) | - | - | - | 58 |
| Buildings | 2,943,599 | - | - | - | - | (508,981) | (43,469) | 2,39 |
| Infrastructure | 38,315,593 | 13,297,550 | - | - | 37,800 | (2,238,566) | (25,885,895) | 23,52 |
| Other property, plant and equipment | 1,427,840 | 597,877 | (98,077) | - | 881,173 | (754,065) | (1,308) | 2,05 |
| Capital work in progress | 54,000 | - | - | - | - | - | - | 5 |
| Finance lease assets | 448,231 | 1,330,047 | - | - | - | (362,708) | - | 1,41 |
| Landfill site | - | 7,031,082 | - | - | - | (1,406,216) | - | 5,62 |
| | **44,068,843** | **22,256,556** | **(98,077)** | **(290,294)** | **918,973** | **(5,270,536)** | **(25,930,672)** | **35,65** |

The municipality has taken advantage of the transitional provisions of Directive 4 which are available to low capacity municipalities.

Property, plant and equipment have therefore not been measured in accordance with GRAP 17 or the accounting policy above. A "provisional" amount has been determined by management, which will be used until the GRAP 17 measurement process is completed. It is anticipated that this process will be completed by June 30, 2012, as required by Directive 4.

# Notes to the Annual Financial Statements



### 4. Intangible assets

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | **Cost / Valuation** | **Accumulated amortisation** | **Carrying value** | **Cost / Valuation** | **Accumulated amortisation** | **Carrying value** |
| Computer software | 194,932 | (86,466) | 108,466 | 142,533 | (48,622) | 93,911 |

**Reconciliation of intangible assets - 2011**

| | **Opening balance** | **Additions** | **Amortisation** | **Total** |
|---|---|---|---|---|
| Computer software | 93,911 | 52,399 | (37,844) | 108,466 |

**Reconciliation of intangible assets - 2010**

| | **Opening balance** | **Additions** | **Other changes, movements** | **Amortisation** | **Total** |
|---|---|---|---|---|---|
| Computer software | 17,938 | 104,060 | (2,154) | (25,933) | 93,911 |

The municipality has taken advantage of the transitional provisions of Directive 4 which are available to low capacity municipalities.

Intangible assets have therefore not been measured in accordance with GRAP 102 or the accounting policy above. A "provisional" amount has been determined by management, which will be used until the GRAP 102 measurement process is completed. It is anticipated that this process will be completed by June 30, 2012, as required by Directive 4.

### 5. Retirement benefits

Certain councillors and certain employees belong to defined benefit plan of the Natal Joint Superannuation and Retirement funds and the Municipal councillors pension fund. Employees make up less than 1% of the total members of the funds. In these funds it could not be determined the amounts owing mainly to the assets not being allocated to each municipality and one set of financials being prepared for each fund and not per municipality. These funds are subject to a triennial acturial valuation. The last valuation was performed in 2005.

| | | |
|---|---|---|
| Current years contribution | 2,425 027 | 1,819 075 |

**SUPERANNUATION FUND**

The acturial value of total assets was R 121,7 million more than the acturial value of liabilities for service of members to that date and for pensioners, made up as follows:

- surplus of R210 million in respect of pensioners (funding level 119,4%)
- deficit of R88,3 million in respect of members (funding level 95%)
- the fund was thus 104,3% funded
- the fund did not hold an investment reserve
- the total contribution rate payable, including the surcharge by and on behalf of members, exceeded that required for future service by 1,41% of members' pensionable emoluments
- An additional contribution by way of a surcharge amounting to 6% of salaries is currently in place to fund the deficit. The surcharge will reduce to 4,5% with effect from 1 July 2007.

**RETIREMENT FUND**

The acturial value of total assets was R 140,9 million more than the acturial value of liabilities for service of members to that date and for pensioners, made up as follows:

- surplus of R63,4 million in respect of pensioners (funding level 116,2%)
- deficit of R204,3 million in respect of members (funding level 73%)
- the fund was thus 87,7% funded

# Notes to the Annual Financial Statements

| Figures in Rand | 2011 | 2010 |
| --- | --- | --- |

**5. Retirement benefits (continued)**
- the fund did not hold an investment reserve
- the total contribution rate payable (including the surcharge of 14% payable jointly by pre-1 July 2002 members and their employers on their behalf) exceeded that required for future service by 12,59% of members' pensionable emoluments. This should be sufficient to eliminate the deficit by 2010 provided that salary increases do not exceed CPIX plus 0,5%.

**6. Prepayments**

| | 2011 | 2010 |
| --- | --- | --- |
| Prepayments (straight-lining of leases) | 834,301 | 762,185 |

| Figures in Rand | 2011 | 2010 |
|---|---|---|

### 7. Financial assets - Investments

| | | |
|---|---|---|
| Housing call account 1 | 251,524 | 241,101 |
| Housing call account 2 | 160,008 | 153,377 |
| Municipal assistance | 646,369 | 619,584 |
| Housing account | 7,475,210 | 7,167,403 |
| Housing account | 6,455,717 | 6,833,268 |
| Housing account | 518,029 | 3,371,141 |
| Municipal investment - Electricity | 2,088,653 | 3,656,499 |
| | **17,595,510** | **22,069,108** |

### 8. Loans and receivables

| | | |
|---|---|---|
| **Loans and receivables** | | |
| Long term debtors | 330,419 | 330,419 |

Long term debtors relate to loan agreements which were entered into between the municipality and the Development Bank of Southern Africa (DBSA) for the water and sanitation scheme. This function was transferred to uMgungundlovu District municipality but the DBSA loan agreements could not be ceded to uMgungundlovu District municipality. The outstanding loan amount is recoverable from uMgungundlovu District municipality. Refer to the annuity loan note for the corresponding liability that Mpofana municipality has with the Development Bank of Southern Africa (DBSA).

The terms of the loans vary between forty to sixty years. The balance receivable within the next 12 months is relected in the current asset section of the statement of financial position and the balance receivable after 30 June 2012, is reflected in the non-current asset section of the statement of financial position.

| | | |
|---|---|---|
| **Non-current assets** | | |
| Loans and receivables | 8,884 | 192,756 |
| **Current assets** | | |
| Loans and receivables | 321,535 | 137,663 |

### 9. Inventories

| | | |
|---|---|---|
| Consumable stores | 105,511 | 37,326 |

The municipality has taken advantage of the transitional provisions of Directive 4 which are available to low capacity municipalities.

Inventories have therefore not been measured in accordance with GRAP 12 or the accounting policy above. A "provisional" amount has been determined by management, which will be used until the GRAP 12 measurement process is completed. It is anticipated that this process will be completed by June 30, 2012, as required by Directive 4.

### 10. Other receivables

| | | |
|---|---|---|
| Sundry debtors | 302,941 | 282,240 |

### 11. Consumer debtors

| | | |
|---|---|---|
| **Gross balances** | | |
| Rates | 28,704,395 | 30,484,772 |
| Electricity | 45,863,443 | 21,533,244 |
| Refuse | 2,955,253 | 3,323,747 |
| Sundry debtors | 5,443,078 | 27,768,732 |
| | **82,966,169** | **83,110,495** |

**Less: Provision for doubtful debts**

| Figures in Rand | 2011 | 2010 |
|---|---|---|

### 11. Consumer debtors (continued)

| | | |
|---|---|---|
| Rates | 17,181,750 | 20,072,796 |
| Electricity | 30,257,019 | 11,749,231 |
| Refuse | 1,943,068 | 2,384,159 |
| Sundry debtors | 3,288,556 | 19,600,151 |
| | **52,670,393** | **53,806,337** |

**Net balance**

| | | |
|---|---|---|
| Rates | 11,522,645 | 10,411,976 |
| Electricity | 15,606,425 | 9,784,013 |
| Refuse | 1,012,185 | 939,588 |
| Sundry debtors | 2,154,522 | 8,168,580 |
| | **30,295,777** | **29,304,157** |

**Rates**

| | | |
|---|---|---|
| Current (0 -30 days) | 978,515 | 1,023,522 |
| 31 - 60 days | 390,926 | 663,966 |
| 61 days and older | 27,334,954 | 28,797,284 |
| | **28,704,395** | **30,484,772** |

**Electricity**

| | | |
|---|---|---|
| Current (0 -30 days) | 8,585,351 | 8,270,760 |
| 31 - 60 days | 3,161,203 | 553,748 |
| 61 days and older | 34,116,889 | 12,708,736 |
| | **45,863,443** | **21,533,244** |

**Refuse**

| | | |
|---|---|---|
| Current (0 -30 days) | 64,188 | 77,903 |
| 31 - 60 days | 23,047 | 51,240 |
| 61 days and older | 2,868,018 | 3,194,604 |
| | **2,955,253** | **3,323,747** |

**Sundry debtors**

| | | |
|---|---|---|
| Current (0 -30 days) | 46,404 | 44,022 |
| 31 - 60 days | 23,674 | 39,197 |
| 61 days and older | 5,372,999 | 27,685,513 |
| | **5,443,077** | **27,768,732** |

**Reconciliation of doubtful debt provision**

| | | |
|---|---|---|
| Balance at beginning of the year | 53,806,337 | 41,815,666 |
| Contributions to provision | 52,670,393 | 32,593,476 |
| Prior year adjustment to provision | (53,806,337) | (20,602,805) |
| | **52,670,393** | **53,806,337** |

**Credit quality of consumer debtors**

The credit quality of consumer debtors that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

**Consumer debtors past due but not impaired**

Consumer debtors which are less than 3 months past due are not considered to be impaired. At 30 June 2011, R 3,354,400 (2010: R 4,142,520) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

# Notes to the Annual Financial Statements

| Figures in Rand | 2011 | 2010 |
| --- | --- | --- |

## 11. Consumer debtors (continued)

| | | |
| --- | --- | --- |
| Less than 1 month | 3,354,400 | 4,142,520 |

**Consumer debtors impaired**

As of 30 June 2011, consumer debtors of R 52,670,393 (2010: R 53,806,337) were impaired and provided for.

The amount of the provision was R 52,670,393 as of 30 June 2011 (2010: R 53,806,337).

The ageing of these loans is as follows:

| | | |
| --- | --- | --- |
| 1 to 3 months | 52,670,393 | 53,806,337 |

## 12. Cash and cash equivalents

Cash and cash equivalents consist of:

| | | |
| --- | --- | --- |
| Cash on hand | 800 | 800 |
| Bank balances | 11,863 | 257,338 |
| Bank overdraft | (1,292,934) | (399,395) |
| | **(1,280,271)** | **(141,257)** |
| Current assets | 12,663 | 258,138 |
| Current liabilities | (1,292,934) | (399,395) |
| | **(1,280,271)** | **(141,257)** |

### 12. Cash and cash equivalents (continued)

**The municipality had the following bank accounts**

| Account number / description | Bank statement balances | | | Cash book balances | | |
| --- | --- | --- | --- | --- | --- | --- |
| | 30 June 2011 | 30 June 2010 | 30 June 2009 | 30 June 2011 | 30 June 2010 | 30 June 2009 |
| First National Bank Limited - Mooi River branch - Public sector current account - Account number 53050399907 | 402,623 | 367,192 | - | (1,292,934) | (399,395) | - |
| First National Bank Limited - Mooi River branch - Public sector current account - Account number 62101108034 | 11,863 | 257,338 | - | 11,863 | 257,338 | - |
| **Total** | **414,486** | **624,530** | **-** | **(1,281,071)** | **(142,057)** | **-** |

### 13. Finance lease obligation

| | 2011 | 2010 |
| --- | --- | --- |
| **Minimum lease payments due** | | |
| - within one year | 1,673,086 | 512,220 |
| - in second to fifth year inclusive | 5,007,058 | 1,352,783 |
| | 6,680,144 | 1,865,003 |
| less: future finance charges | (1,470,265) | (369,732) |
| **Present value of minimum lease payments** | **5,209,879** | **1,495,271** |

| | 2011 | 2010 |
| --- | --- | --- |
| **Present value of minimum lease payments due** | | |
| - within one year | 1,081,993 | 360,858 |
| - in second to fifth year inclusive | 4,127,886 | 1,134,413 |
| | **5,209,879** | **1,495,271** |

The average lease term is 5 years. Interest rates are linked to prime for printers and prime less 2% for motor vehicles, at the contract date.

Contingent rents have been recognised as an expense in the statement of financial performance.

The leased assets are indicated in Note 2.

### 14. Unspent conditional grants and receipts

**Unspent conditional grants and receipts comprises of:**

| | 2011 | 2010 |
| --- | --- | --- |
| Municipal assistance grant | 638,791 | - |
| Townview housing project grant | 8,168,481 | 8,168,481 |
| Cragieburn housing project grant | 6,597,357 | 6,763,823 |
| Finance management grant | - | 283,718 |
| Municipal systems improvement grant | - | - |
| Electricity grant | 2,057,836 | 2,575,267 |
| | **17,462,465** | **17,791,289** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2011 | 2010 |
|---|---|---|

### 14. Unspent conditional grants and receipts (continued)

| **Municipal assistance grant** | | |
|---|---|---|
| Balance unspent at the beginning of the year | - | - |
| Current year receipts | 725,000 | - |
| Conditions met - transferred to revenue | (86,209) | - |
| | **638,791** | **-** |

| **Townview housing project grant** | | |
|---|---|---|
| Balance unspent at the beginning of the year | 8,168,481 | 8,168,481 |
| Current year receipts | - | - |
| Conditions met - transferred to revenue | - | - |
| | **8,168,481** | **8,168,481** |

| **Cragieburn housing project grant** | | |
|---|---|---|
| Balance unspent at the beginning of the year | 6,763,823 | 6,763,823 |
| Current year receipts | - | - |
| Conditions met - transferred to revenue | (166,466) | - |
| | **6,597,357** | **6,763,823** |

| **Finance management grant** | | |
|---|---|---|
| Balance unspent at the beginning of the year | 283,718 | 553,729 |
| Current year receipts | 1,500,000 | 1,500,000 |
| Conditions met - transferred to revenue | (1,783,718) | (1,770,012) |
| | **-** | **283,717** |

| **Electricity grant** | | |
|---|---|---|
| Balance unspent at the beginning of the year | 2,575,267 | 5,811,326 |
| Current year receipts | - | - |
| Conditions met - transferred to revenue | (517,431) | (3,236,059) |
| | **2,057,836** | **2,575,267** |

| **Municipal systems improvement grant** | | |
|---|---|---|
| Balance unspent at the beginning of the year | - | 1,987 |
| Current year receipts | 750,000 | 735,000 |
| Conditions met - transferred to revenue | (750,000) | (736,987) |
| | **-** | **-** |

Municipal assistance grant
This grant was provided to Mpofana municipality from Cooperative Governance and Traditional Affairs (CoGTA) to assist the municipality with governance issues.

Townview housing project grant
This was a tranche allocation by the Department of Human Settlement for the construction of low cost housing in the Townview area, in prior years. The project was abondoned due to the low standards as per the Department of Human Settlement. A rehabilitation project was embarked on by the Provincial Department, leaving the unspent portion with the municipality. The municipality has applied to use the funds for the construction of roads and the Phumlaas housing project. The municipality is awaiting the Department of Human Settlement's response regarding the application.

Cragieburn housing project grant
This grant will be used for the construction of low cost housing in the Cragieburn area. It is currently in tranche 1 of approval.

Finance management grant (FMG)
The main objective of this grant is to assist in the rollout of financial management reforms embodied in the MFMA through building capacity in financial management. Its primary purpose is to assist building strong financial management skills.

| Figures in Rand | 2011 | 2010 |
|---|---|---|

### 14. Unspent conditional grants and receipts (continued)

Electricity grant
This grant is used for the rehabiliatation and the refurbishment of the electricity infrastructure to support sustained supply and to increase distribution capacity. The unspent portion will be used to complete the same projects.

Municipal systems improvement grant (MSIG)
This grant is used for infrastructure, capacity building and restructuring. The capacity building and restructuring grants were set up to assist the municipality in developing their planning, budgeting, financial management and technical skills.

### 15. Provisions

**Reconciliation of provisions - 2011**

| | Opening Balance | Additions | Utilised during the year | Total |
|---|---|---|---|---|
| Provision for landfill site | 7,031,082 | 703,108 | - | 7,734,190 |
| Provision for leave pay | 1,852,906 | 1,775,387 | (2,105,488) | 1,522,805 |
| Provision for damaged vehicles | 87,750 | - | (80,180) | 7,570 |
| | **8,971,738** | **2,478,495** | **(2,185,668)** | **9,264,565** |

**Reconciliation of provisions - 2010**

| | Opening Balance | Additions | Utilised during the year | Total |
|---|---|---|---|---|
| Provision for landfill site | - | 7,031,082 | - | 7,031,082 |
| Provision for leave pay | 959,079 | 1,173,466 | (279,639) | 1,852,906 |
| Provision for damaged vehicles | - | 87,750 | - | 87,750 |
| | **959,079** | **8,292,298** | **(279,639)** | **8,971,738** |

Landfill site
The landfill site provision is raised for the rehabilitation of the waste disposal site to its original state once the site has reached the end of its useful life. This is expected to be by 30 June 2015.

Leave pay
The leave pay provision is accrued at the Basic Conditions of Employment Act rate and is accumulated to a maximum of 48 days per employee.

Damaged vehicles
A provision has been raised for damages to the leased motor vehicles from ABSA Vehicle Management Solutions. All motor vehicles that have been damaged through wear and tear must be repaired before being returned to the lessor, as per the terms and conditions of the lease agreement.

### 16. Annuity loan

The municipality has received five loans from the Development Bank of Southern Africa (DBSA) to fund water, electricity and sewerage expenditure.The terms of the loans vary between forty to sixty years. Each loan has a fixed interest rate however, all loans have different fixed interest rates. Interest rates are between 14,30% to 16,32% per annum, payable every six months.

Three of the five loans will be recovered from uMgungundlovu District municipality as the water and sanitation function has been ceded to the district municipality. Refer to the loans and receivables note above.

| **Annuity Loans** | | |
|---|---|---|
| DBSA Loans | 331,162 | 487,335 |
| Less: Current portion transferred to current liabilities | (125,158) | (156,173) |
| | **206,004** | **331,162** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2011 | 2010 |
|---|---|---|

### 17. VAT receivable

| | | |
|---|---|---|
| VAT refundable | 608,791 | 145,751 |

### 18. Trade and other payables from exchange transactions

| | | |
|---|---|---|
| Trade payables | 279,642 | 267,046 |
| Other payables | 8,688,413 | 7,765,666 |
| | **8,968,055** | **8,032,712** |

### 19. Consumer deposits

| | | |
|---|---|---|
| Electricity | 192,696 | 176,206 |
| Water | 146,237 | 147,887 |
| Other | 18,595 | 49,690 |
| | **357,528** | **373,783** |

Interest is not paid to consumers when deposits are refunded and hence is not accrued on consumer deposits value.

### 20. Revenue

| | | |
|---|---|---|
| Property rates | 5,967,013 | 5,373,420 |
| Service charges | 43,123,011 | 24,298,995 |
| Rental of facilities & equipment | 1,024,503 | 892,817 |
| Fines | 1,888,540 | 1,851,495 |
| Licences and permits | 2,966,240 | 2,253,732 |
| Government grants (refer note 22) | 26,452,126 | 27,240,976 |
| | **81,421,433** | **61,911,435** |

| | | |
|---|---|---|
| **The amount included in revenue arising from exchanges of goods or services are as follows:** | | |
| Service charges | 43,123,011 | 24,298,995 |
| Rental of facilities & equipment | 1,024,503 | 892,816 |
| Licences and permits | 2,966,240 | 2,253,732 |
| | **47,113,754** | **27,445,543** |

| | | |
|---|---|---|
| **The amount included in revenue arising from non-exchange transactions is as follows:** | | |
| Property rates | 5,967,013 | 5,373,420 |
| Fines | 1,888,540 | 1,851,495 |
| Government grants & subsidies | 26,452,126 | 27,240,976 |
| | **34,307,679** | **34,465,891** |

| Figures in Rand | 2011 | 2010 |
|---|---|---|

## 21. Property rates

| | | |
|---|---|---|
| Property rates | 5,967,013 | 5,373,420 |

Valuations on land and buildings are performed every four years. The last valuation occurred on July 01, 2008.

The following general rates are applied:

| | | |
|---|---|---|
| -Residential | R1.2100 | R0.0112 |
| -Agricultural | R0.3000 | R0.0028 |
| -Commercial | R1.5000 | R0.0170 |
| -Public Service Infrastructure | R0.3000 | R0.0025 |

Rebates of 30% were granted to rates on residential properties, 55% on agricultural properties. In the 2009/2010 year rebates of 30% were granted to rates on residential, 44% agricultural properties and 30% public service infrastructure.

Rates are levied on a monthly basis.

Rates are levied on the following properties as per the valuation roll:

**Property valuations**

| | | |
|---|---|---|
| Agricultural | 1,187,766,000 | 1,541,758,000 |
| Agricultural smallholding | 335,268,000 | - |
| Commercial | 257,191,100 | 78,961,000 |
| Industrial | 1,525,000 | - |
| Institutional | - | 99,090,000 |
| Municipal | 6,771,000 | 8,470,000 |
| Public service infrastructure | 6,424,530 | 2,804,253 |
| Residential & Residential hospitality | 400,105,700 | 389,977,850 |
| Sectional title - Commercial | 1,300,000 | - |
| Sectional title - Residential | 6,250,000 | 1,770,000 |
| State owned | 511,000 | 11,786,450 |
| Place of worship | 7,000,000 | 9,300,000 |
| | **2,210,112,330** | **2,143,917,553** |

## 22. Service charges

| | | |
|---|---|---|
| Sale of electricity | 42,669,907 | 23,839,742 |
| Refuse removal | 453,104 | 459,253 |
| | **43,123,011** | **24,298,995** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2011 | 2010 |
|---|---|---|

### 23. Government grants and subsidies

| | | |
|---|---|---|
| Equitable share | 16,694,646 | 13,559,116 |
| Cragieburn housing project grant | 166,466 | - |
| Museum subsidy | 42,000 | - |
| Municipal infrastructure grant (MIG) | 3,039,000 | 7,938,803 |
| Municipal systems improvement grant (MSIG) | 750,000 | 736,986 |
| Finance management grant (FMG) | 1,783,718 | 1,770,011 |
| Municipal assistance grant | 86,209 | 812,895 |
| Department of trade and industry (DTI) subsidy | 2,555,481 | - |
| Public health subsidy | 817,175 | - |
| Electricity grant | 517,431 | 2,423,165 |
| | **26,452,126** | **27,240,976** |

Equitable share
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Museum subsidy
This subsidy has been granted to the municipality for operational upkeep of the museum in the area.

Department of trade and industry (DTI) subsidy
This subsisdy was granted to the municipality by the Department of Trade and Industry. This was granted to reimburse the municipality for 30% of all capital expenditure incurred during the 2008/2009 reporting period until the 2010/2011 reporting period.

Public health subsidy
This subsidy was granted to the municipality by the Department of Public health for the operational costs of running the clinic.

Municipal infrastructure grant (MIG)
This grant is used to address backlogs in municipal infrastructure required for the provision of basic services.

### 24. Other income

| | | |
|---|---|---|
| Other income | 252,671 | 352,233 |
| Cemetry fee income | 42,150 | 49,750 |
| Donations income | - | 529,211 |
| | **294,821** | **931,194** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2011 | 2010 |
|---|---|---|

### 25. Employee related costs

| | | |
|---|---|---|
| Basic | 10,736,652 | 7,144,500 |
| Bonus | 1,103,547 | 604,214 |
| Medical aid - company contributions | 789,943 | 734,627 |
| UIF | 120,268 | 170,327 |
| SDL | 165,588 | 91,593 |
| Leave pay provision charge | 252,631 | 1,173,466 |
| Post-employment benefits | 2,425,027 | 1,819,075 |
| Overtime payments | 1,253,266 | 958,194 |
| Transport allowance | 1,444,157 | 1,363,582 |
| Housing benefits and allowances | 35,744 | 49,649 |
| Other allowances | 1,647,487 | 1,391,031 |
| Other payroll levies | 5,790 | 3,747 |
| | **19,980,100** | **15,504,005** |

**Remuneration of municipal manager**

| | | |
|---|---|---|
| Annual Remuneration | 324,936 | 320,000 |
| Car, travel, accomodation allowance and other | 351,841 | 263,515 |
| Performance Bonuses | 63,656 | - |
| | **740,433** | **583,515** |

**Remuneration of chief finance officer**

| | | |
|---|---|---|
| Annual Remuneration | 323,659 | 250,000 |
| Car, travel, accomodation allowance and other | 332,234 | 284,246 |
| Performance Bonuses | 57,523 | - |
| | **713,416** | **534,246** |

**Remuneration of Director Corporate Services**

| | | |
|---|---|---|
| Annual Remuneration | 173,333 | 227,500 |
| Car, travel, accomodation allowance and other | 205,754 | 306,049 |
| | **379,087** | **533,549** |

**Remuneration of Director Technical Services**

| | | |
|---|---|---|
| Annual Remuneration | 200,790 | - |
| Car, travel, accomodation allowance and other | 161,366 | - |
| Performance Bonuses | 2,643 | - |
| | **364,799** | **-** |

**Renumeration of Director Social Services**

| | | |
|---|---|---|
| Annual Remuneration | 303,561 | 300,636 |
| Car, travel, accomodation allowance and other | 365,737 | 288,152 |
| Performance Bonuses | 29,703 | - |
| | **699,001** | **588,788** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2011 | 2010 |
|---|---|---|

### 26. Remuneration of councillors

| | | |
|---|---|---|
| Executive Mayor | 651,844 | 547,989 |
| Deputy Mayor | - | 178,744 |
| Councillors | 613,368 | 474,188 |
| Councillors’ pension and medical aid contributions | 128,096 | 94,607 |
| Councillor's allowances | 429,041 | 301,230 |
| | **1,822,349** | **1,596,758** |

### 27. Debt impairment

| | | |
|---|---|---|
| Contributions to bad-debt provision | 1,027,357 | 28,558,686 |
| Bad debts written off | 24,080,561 | 4,034,789 |
| | **25,107,918** | **32,593,475** |

### 28. Investment revenue

| | | |
|---|---|---|
| **Interest revenue** | | |
| Interest on investments | 894,868 | 1,119,694 |
| Interest charged on consumer debtors | 4,475,582 | 7,820,687 |
| Bank | 47,468 | 45,376 |
| | **5,417,918** | **8,985,757** |

### 29. Depreciation and amortisation

| | | |
|---|---|---|
| Property, plant and equipment | 4,212,836 | 5,296,469 |

### 30. Impairment of assets

| | | |
|---|---|---|
| **Impairments** | | |
| Property, plant and equipment | 550,812 | 25,930,672 |

The impairment losses on property, plant and equipment were calculated by an expert, Pricewaterhousecoopers Combined System (Pty) Ltd.

Impairment losses were calculated based on the result of a physical verification conducted during which a condition assessment was performed

### 31. Finance costs

| | | |
|---|---|---|
| Provision for landfill site (unwinding) | 703,108 | - |
| Interest on finance leases | 324,342 | 141,342 |
| Interest on bank | 53,666 | - |
| Interest on non-current borrowings | 68,486 | 56,246 |
| | **1,149,602** | **197,588** |

### 32. Auditors' remuneration

| | | |
|---|---|---|
| Fees | 815,711 | 693,971 |

# Notes to the Annual Financial Statements

| Figures in Rand | 2011 | 2010 |
|---|---|---|

## 33. Operating lease

At the reporting date the entity has outstanding commitments under operating leases which fall due as follows:

| | | |
|---|---|---|
| **Operating leases - lessee** | | |
| Within one year | 217,479 | 155,965 |
| In the second to fifth year | 508,337 | 68,071 |
| | **725,816** | **224,036** |

Operating leases consist of the following:
Operating lease payments represent rentals payable by the municipality for certain of its fleet vehicles, and clinic. Leases are negotiated for four years for the rental of the clinic, and the lease periods for the motor vehicles vary. Lease rentals for the clinic escalate by 10% over the lease period. Lease rentals for the fleet vehicles are linked to the prime interest rate.

Operating leases - lessor
The municipality has low cost houses that are leased to certain staff/members. Lease rentals are based on a percentage of the lessee's income levels. These leases are cancellable at any time by either party provided that one month's notice is given. There is no fixed lease period.

## 34. Rental income

| | | |
|---|---|---|
| **Premises** | | |
| Premises | 233,939 | 227,232 |
| Venue hire | 30,270 | 24,500 |
| | **264,209** | **251,732** |
| **Facilities and equipment** | | |
| Rental of equipment | 760,294 | 641,085 |
| | **1,024,503** | **892,817** |

## 35. Bulk purchases

| | | |
|---|---|---|
| Electricity | 27,279,093 | 21,476,834 |

## 36. Cash (used in) generated from operations

| | | |
|---|---|---|
| Deficit | (3,426,888) | (43,543,290) |
| **Adjustments for:** | | |
| Depreciation and amortisation | 4,212,836 | 5,296,469 |
| Loss on sale/disposal of assets | 39,422 | 100,230 |
| Finance costs | 446,494 | 197,588 |
| Interest income | (5,417,918) | (8,985,757) |
| Impairment deficit | 550,812 | 25,930,672 |
| Movements in provisions | 292,827 | 8,012,659 |
| Adjustments for GRAP | - | 20,753,490 |
| Other non-cash items | (1,446,898) | - |
| **Changes in working capital:** | | |
| Inventories | (68,185) | 256,832 |
| Trade and other receivables | (92,817) | (294,467) |
| Consumer debtors | (991,620) | 5,209,542 |
| Trade and other payables from exchange transactions | 935,344 | 1,428,846 |
| VAT | (463,040) | 1,306,313 |
| | **(5,429,631)** | **15,669,127** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2011 | 2010 |
|---|---|---|

## 37. Commitments

**Authorised capital expenditure**

| | | |
|---|---|---|
| **Approved and contracted for** | | |
| • Craigieburn Mpofana & Onverwag Access gravel roads | 1,590,969 | - |
| • Phumlaas Road project | 9,668,000 | - |
| | **11,258,969** | **-** |

## 38. Contingencies

The following were disputes as at 30 June 2011:

| | |
|---|---|
| Weston Agricultural College | R350 000 |
| Sala Pension Fund (x3) | R150 000 |
| Tai Yuen Textiles | R200 000 |

Weston Agricultural College is suing the municipality for the damages that occurred to their equipment as a result of a natural fire disaster.

The Sala Pension Fund sued the municipality for subscription fees. This matter is still ongoing.

The dispute between Tai Yeun Textiles and the municipality relates to a tariff dispute.

## 39. Related parties

**Related party transactions**

| | | |
|---|---|---|
| **Councillor T Pratsch** | | |
| Caltex Service Station | 150,589 | 122,281 |

A related party exists between the municipality and Councillor T Pratsch.

The Municipality has a credit facility for the purchase of fuel and oil for Municipal vehicles. The owner of the Caltex Service Station used is a Councillor of the Municipality.

The business transaction was entered into in the year 2000 prior to the owner becoming a Councillor.

Remuneration to key personnel of the municipality is disclosed in notes 24 and 25.

### 40. Prior period errors

During the year ended 30 June 2010 unspent conditional grants were incorrectly recognised hence the unspent conditional grant liability for the electricity grant has been restated from R 4 998 433 to R 2 575 268. This is due to the grant register not being updated correctly in the prior year. The balance as at 30 June 2010 of R 2 575 268 has been confirmed by Department of Energy.

During the year ended 30 June 2010 the statement of financial performance showed a fair value adjustment of R 389 763 relating to property, plant and equipment. This adjustment related to assets that were found in the prior financial year and a deemed cost was given to those assets. As a result the fair value adjustment has been restated from R 389 763 to R nil, as the deemed cost adjustment has been taken to accumulated surplus.

In prior years the municipality had a deputy mayor. As the municipality has a plenary council they should not of have had a deputy mayor in this position. As a result the remuneration awarded to the deputy mayor has been raised as a sundry debtor (as at 30 June 2010 - an amount of R 65 631 and financial periods prior to 30 June 2010 - an amount of R 179 914).

In the 2010 financial year, there was land that is on the valuation roll but was not accounted for as investment property as per GRAP 16.

In years prior to 1 July 2009, the municipality had vacant land with undetermined use, as a result these items should be classified as investment property as per GRAP 16.

The correction of the error results in adjustments as follows:

**Financial periods prior to 1 July 2009**

| | | |
|---|---|---|
| **Statement of financial position** | | |
| Sundry debtors | 179,914 | - |
| Investment property | 290,294 | - |
| Property, plant and equipment | (290,294) | - |
| **Statement of financial performance and Accumulated surplus** | | |
| Employee related costs (remuneration of councillors) | (179,914) | - |

**2010**

| | | |
|---|---|---|
| **Statement of financial position** | | |
| Unspent conditional grants - Electricity grant | (2,423,165) | - |
| Sundry debtor | 65,631 | - |
| Investment property | 5,045,100 | - |
| Accumulated surplus | (5,045,100) | - |
| **Statement of financial performance and Accumulated surplus** | | |
| Revenue - Electricity grant | 2,423,165 | - |
| Employee related costs (remuneration of councillors) | (65,631) | - |

### 41. Going concern

We draw attention to the fact that the municipality had a deficits of R 3,426,888 as at 30 June 2011 and R 43,543,290 as at 30 June 2010.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

There is a financial turn around strategy which has been approved by council. This will be in effect in the next eight months. The Financial turn around strategy aims to prioritize the following:

1. Revenue maximization
2. Revenue protection
3. Cost recovery on tariffs

**41. Going concern (continued)**
4. Disposal of underutilized assets
5. Prioritization of economic development
6. Reduction in non critical expenditure and an increase on key service delivery expenditure.

Estimated cash inflows R 90 236 937

estimated cash outflow R 88 542 957

Net cash flows R 1 693 980

**42. Events after the reporting date**

After reporting date, the municipality has been notified by the Minister of Finance that R 4 998 433 will be witheld from their 2011/2012 allocation of equitable share. The R 4 998 433, relates to an unspent conditional grant (electricity grant) that was reflected as a balance in the prior year annual financial statements, however this unspent conditional grant has been restated to R 2 257 268 as at 30 June 2010 (refer note 40).

**43. Unauthorised expenditure**

At the time of completion of the annual financial statements, there was no unauthorised expenditure.

**44. Fruitless and wasteful expenditure**

| | 2011 | 2010 |
|---|---|---|
| Penalty interest | 496 | - |

Penalty interest on bank
In the current year the municipality incurred penalty interest on their main bank account as a result of being in overdraft at certain points during the year.

**45. Irregular expenditure**

At the time of completion of the annual financial statements no irregular expenditure had been incurred.

**46. In-kind donations and assistance**

During the current financial year (2010/2011), there were no in-kind donations and assistance.

**47. Deviation from supply chain management regulations**

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of council and the accounting officer and includes a note to the annual financial statements.

Various items were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(1)as stated above. The reasons for the deviations were documented and reported to the Accounting Officer who considered them and subsequently approved the deviation from the normal supply chain management regulation.

**Reasons for deviations**

| | |
|---|---|
| Sole supplier and where SLAs had to be put in place | 73 % at R 811 919 |
| Emergency cases | 16 % at R 177 955 |
| Media target market | 5 % at R 55 611 |
| Bulk purchase suppliers | 6 % at R 66 734 |

**48. Risk management**

Maximum credit risk exposure

### 48. Risk management (continued)

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluates credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the municipality. The utilisation of credit limits is regularly monitored.

Financial assets exposed to credit risk at year end are noted under the respective Financial assets - Investments, Trade and other receivables and the Cash and cash equivalents notes.

These balances represent the maximum exposure to credit risk.

Liquidity risk
The municipality’s risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The municipality's financial liabilities are all classified as current liabilities, payable within the next 12 months, other than the finance lease, the maturity of which is disclosed in the finance lease note.

Interest rate risk
As the municipality has no significant interest-bearing assets, the municipality’s income and operating cash flows are substantially independent of changes in market interest rates.

At year end, financial instruments exposed to interest rate risk were as follows:
- Call deposits
- Notice deposits
- Long-term debtors

Interest rate sensitivity
The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of financial assets - investments. With all other variables held constant, the municipality's deficit for the year is affected through the impact on variable rate investments as follows.

| | **Effect on profit before tax** | |
|---|---|---|
| | **2% increase** | **2% decrease** |
| 2011 | | |
| Financial assets - Investment | 351,910 | (351,910) |
| 2010 | | |
| Financial assets - Investment | 441,382 | (441,382) |

Fair value hierachy
The municipality does not carry any of its financial assets at fair value on subsequent measurement. The fair value hierarchy disclosure has therefore not been disclosed.

### 49. Electricity losses

| **Electricity units (kWh) lost in distribution** | | |
|---|---|---|
| Electricity units (kWh) purchased from Eskom | 61,857,434 | 60,112,284 |
| Electricity units (kWh) sold from Eskom | (46,950,363) | (50,437,312) |
| | **14,907,071** | **9,674,972** |

Electricity losses for the financial year is 17.1% (2010: 16%). The rand value of the electricity losses for the financial year is R4,442,361 (2010: R3,436,293).

# Notes to the Annual Financial Statements

| Figures in Rand | 2011 | 2010 |
| --- | --- | --- |

**49. Electricity losses (continued)**

These losses are attributable to electricity line losses within the electricity network infrastructure.

# Detailed Income statement

| Figures in Rand | Note(s) | 2011 | 2010 |
|---|---|---|---|
| **Revenue** | | | |
| Property rates | 21 | 5,967,013 | 5,373,420 |
| Service charges | 22 | 43,123,011 | 24,298,995 |
| Rental of facilities and equipment | | 1,024,503 | 892,817 |
| Fines | | 1,888,540 | 1,851,495 |
| Licences and permits | | 2,966,240 | 2,253,732 |
| Government grants & subsidies | 23 | 26,452,126 | 27,240,976 |
| Other income | 24 | 294,821 | 931,194 |
| Interest received - investment | 28 | 5,417,918 | 8,985,757 |
| **Total Revenue** | | **87,134,172** | **71,828,386** |
| **Expenditure** | | | |
| Employee related costs | 25 | (19,980,100) | (15,504,005) |
| Remuneration of councillors | 26 | (1,822,349) | (1,596,758) |
| Depreciation and amortisation | 29 | (4,212,836) | (5,296,469) |
| Impairment loss/ Reversal of impairments | 30 | (550,812) | (25,930,672) |
| Finance costs | 31 | (1,149,602) | (197,588) |
| Debt impairment | 27 | (25,107,918) | (32,593,475) |
| Repairs and maintenance | | (1,172,692) | (1,337,141) |
| Bulk purchases | 35 | (27,279,093) | (21,476,834) |
| Contracted services | | (1,750,902) | (715,818) |
| Grants and subsidies paid | | (166,466) | (666,462) |
| General Expenses | | (7,328,868) | (9,956,224) |
| **Total Expenditure** | | **(90,521,638)** | **(115,271,446)** |
| Loss on disposal of assets | | (39,422) | (100,230) |
| **Deficit for the year** | | **(3,426,888)** | **(43,543,290)** |